

**WAYNE COUNTY
SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

for the year ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Wayne County School District
Monticello, Kentucky 42633

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County School District as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements' discussion and analysis and budgetary comparison information on pages 3 through 7 and 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 7, 2013 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Somerset, Kentucky
November 7, 2013

Wayne County Public School District-Monticello, Kentucky
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2013

As management of the Wayne County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

Financial Highlights

- The beginning cash balance for the District was \$2,504,144. The year ended with a balance of \$556,493. The year end balance is \$1,947,651 less than the 2011-2012 year-end balance.
- The General Fund had \$18,477,728 in revenue, which primarily consisted of the state program (SEEK), property, utilities and motor vehicle taxes. Excluding interfund transfers and other financing sources, there was \$19,400,912 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt reduction on bonds was \$2,220,030 for the current fiscal year. The District's outstanding debt, including KISTA, is \$ 18,473,793 (principal and interest combined) at the end of fiscal year 2013.
- The Board approved a capitalization policy that changed the original cost threshold of a fixed asset from \$1,000 to \$5,000. All fixed assets that did not meet this threshold were retired from the District's accounting system.
- Construction was completed on the addition to the Wayne County Middle School in fiscal year 2012-2013. This addition allowed new grade divisions in the District's buildings. Wayne County Middle School educated grades 6 through 8, Bell Elementary housed grades 3 through 5 and Walker Elementary grades Kindergarten through 2. Turner Intermediate, which housed grades 5 and 6, was closed.
- Title IX required the District to install lights on the softball field due to lights being installed on the baseball field by an outside source. This project was bid and re-bid but remained a substantial expenditure for the general fund.
- During fiscal year 2012-2013, the District was informed that Monticello Independent School would be closing at the end of the year. The District was bound by statute to accept the students, tenured staff, assets and liabilities of the MIS district. As a facility plan was developed to best serve all students, over 150 classrooms had to be moved to accommodate a new grade structure. In addition, a major infrastructure upgrade to the MIS building resulted in unanticipated expenses to the District's general fund.
- Total enrollment for 2012-2013 for grades K-12 was 2,508, an 18 student increase from 2011-2012. The overall District attendance rate for 2012-2013 was 94.29, a decrease from 2011-2012 of 9505.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service operations and childcare. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 and 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 32 of this report.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,759,710 as of June 30, 2013. This reflects a decrease of \$804,474 from 2011-2012.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2013

Current Assets	1,597,630
Noncurrent Assets	24,276,675
Total Assets	25,874,305
Current Liabilities	2,140,579
Noncurrent Liabilities	14,189,969
Total Liabilities	16,330,548
Net Position	
Investment in capital assets (net of debt)	8,391,877
Restricted Fund Balance	402,473
Unrestricted Fund Balance	749,407
Total Net Position	9,543,757

Comments on Budget Comparisons

- The District's total general revenues for the fiscal year ended June 30, 2013, net of Interfund transfers, were \$18,477,728.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the exception of revenue code 3900 (on-behalf payments made by the state for employee benefits). On-behalf payments are not included in the budget. The actual revenue received was \$3,979,065 more than budgeted.
- The total cost of all programs and services was \$19,237,386 net of debt service.
- General Fund budget expenditures to actual varied overall due to recording on-behalf payments.

General Fund Revenue/Expenditures

The majority of the total General Fund (Fund 1) revenue was derived from state revenue (78.8%). Local funding accounted for (19.3%) of the revenue.

The greatest amount of revenue (53.8%) was expended for instruction. Other significant expenditures were student transportation (11.2%), plant operation and management (10.5%), instructional staff support which includes school libraries and district-wide instructional support staff (6.4%), school administrative support (5.9%), and student support services which includes health services, attendance services and guidance counseling (5.6%).

Special Revenue Fund Revenue/Expenditures

The majority (70.5%) of the Special Revenue's (Fund 2) revenue was derived from federal sources with state revenue making up (29.3%). The largest expenditure for the fund was for instruction, which was (74.3%) of the fund's total expenditures. Instructional staff support services was (16.2%) of the total expenditures.

Capital Outlay Fund and Facilities Support Program of Kentucky Revenue/Expenditures

The Capital Outlay Fund's (Fund 310) revenue is received from the state funding program (SEEK). The FSPK Fund (Fund 320) receives revenue from both state funding and local taxes. During this year the majority of these funds were transferred to the debt service fund for paying on bonds sold in previous years for new and renovated facilities. This year the state allowed the district to use a portion of Capital Outlay funds for approved operation expenses that would have been funded through General Fund.

Construction Fund Revenue/Expenditures

The Construction Fund (Fund 360) is used for new buildings and renovations. The Wayne County Middle School addition project was completed during the fiscal year. A majority of the expenses, funded through general fund, for the Softball Lighting project was expended during the fiscal year.

Debt Service Fund Revenue/Expenditures

The Debt Service Fund (Fund 400) is used for paying debt service on bonds sold for new and renovated facilities. The fund receives a majority of its revenue from transfers from other funds primarily the Capital Outlay and FSPK Funds.

Food Service Fund Revenue/Expenditures

The School Food Services Fund (Fund 51) is an enterprise fund, which receives revenue from federal (79.5%), state (13.8%) and local (6.7%) sources. Expenditures for this fund are for food service staff, food, supplies and equipment.

Childcare Tuition Fund Revenue/Expenditures

The Childcare Tuition Fund (Fund 52) is an enterprise fund that receives its revenue from day care fees. The funds expenditures are for day care staff, supplies and equipment.

Budgetary Implications

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$345,000 in contingency (2.0%). The cash balance for beginning the fiscal year is \$556,493.

Questions regarding this report should be directed to the Superintendent (606) 348-8484 or to Lisa Pyles, Finance Officer (606)348-8484 or by mail at 1025 South Main Street, Monticello, Kentucky 42633.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 163,473	\$ 232,132	\$ 395,605
Investments	279,534	-	279,534
Accounts receivable	793,065	93,358	886,423
Inventory	-	36,068	36,068
Non-depreciable capital assets			
Land	1,227,081	-	1,227,081
Depreciable capital assets			
Land improvements	728,013	-	728,013
Buildings and improvements	30,008,031	1,837,658	31,845,689
Furniture and equipment	4,645,344	338,664	4,984,008
Less accumulated depreciation	(13,661,793)	(846,324)	(14,508,117)
TOTAL ASSETS	\$ 24,182,749	\$ 1,691,556	\$ 25,874,305
LIABILITIES			
Accounts payable	67,840	908	68,748
Accrued payroll & related expenses	1,752	-	1,752
Deferred revenues	214,641	-	214,641
Long-term liabilities			
Due or payable within one year			
Sick leave payable	93,399	-	93,399
Interest payable	67,210	-	67,210
Bonds payable & capital leases	1,694,829	-	1,694,829
Due or payable after one year			
Bonds payable & capital leases	14,189,969	-	14,189,969
TOTAL LIABILITIES	16,329,640	908	16,330,548
NET POSITION			
Invested in capital assets, net of debt	7,061,879	1,329,998	8,391,877
Restricted for:			
Inventories	-	36,068	36,068
Sick leave	93,399	-	93,399
Encumbrances	-	-	-
Debt service	213,541	-	213,541
Capital Projects	59,465	-	59,465
Unrestricted	424,825	324,582	749,407
TOTAL NET POSITION	7,853,109	1,690,648	9,543,757
TOTAL LIABILITIES AND NET POSITION	\$ 24,182,749	\$ 1,691,556	\$ 25,874,305

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	\$ 13,876,818	\$ -	\$ 3,240,775	\$ -	\$ (10,636,043)		\$ (10,636,043)
Student support services	1,160,554	-	-	-	(1,160,554)		(1,160,554)
Staff support services	1,820,604	-	-	-	(1,820,604)		(1,820,604)
District administration	427,627	-	-	-	(427,627)		(427,627)
School administration	1,164,134	-	-	-	(1,164,134)		(1,164,134)
Business support services	348,187	-	-	-	(348,187)		(348,187)
Plant operation and maintenance	2,095,824	-	-	-	(2,095,824)		(2,095,824)
Student transportation	2,334,957	-	-	-	(2,334,957)		(2,334,957)
Day care operations	13,563	-	-	-	(13,563)		(13,563)
Community service	257,534	-	-	-	(257,534)		(257,534)
Adult education	29,000	-	-	-	(29,000)		(29,000)
Facility acquisition/construction	661,270	-	-	-	(661,270)		(661,270)
Interest on debt	462,290	-	-	-	(462,290)		(462,290)
Total governmental activities	24,652,362		3,240,775		(21,411,587)		(21,411,587)
Business-type activities							
Food service	1,851,524	121,711	1,730,860	-	-	1,047	1,047
Day care	65,670	43,176	22,494	-	-	-	-
Total business-type activities	1,917,194	164,887	1,753,354		-	1,047	1,047
Total school district	\$ 26,569,556	\$ 164,887	\$ 4,994,129	\$ -	\$ (21,411,587)	1,047	(21,410,540)
General revenues:							
Taxes							
State aid - formula grants					3,996,739	-	3,996,739
Investment earnings					17,393,900	-	17,393,900
Miscellaneous					19,531	1,604	21,135
Operating Transfers In					7,108	883	7,991
Operating Transfers Out					1,610,709	-	1,610,709
Special items:					(1,540,368)	(70,341)	(1,610,709)
Gain / loss on sale of assets					2,126	1,081	3,207
Sale or comp for loss of assets					(789,233)	-	(789,233)
Total general and special revenues					20,700,512	(66,773)	20,633,739
Change in net position					(711,075)	(65,726)	(776,801)
Net position - July 1, 2012					8,564,184	1,756,374	10,320,558
Net position - June 30, 2013					\$ 7,853,109	\$ 1,690,648	\$ 9,543,757

The accompanying notes are an integral part of these statements.
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WAYNE COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	GENERAL FUND	SPECIAL REVENUE	OTHER GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 537,642	\$ (440,232)	\$ 66,063	\$ 163,473
Investments	-	-	279,534	279,534
Accounts receivable	130,183	662,882	-	793,065
TOTAL ASSETS	\$ 667,825	\$ 222,650	\$ 345,597	\$ 1,236,072
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 54,450	\$ 8,009	\$ 72,591	135,050
Accrued payroll & related expenses	1,752	-	-	1,752
Deferred revenues		214,641	-	214,641
TOTAL LIABILITIES	56,202	222,650	72,591	351,443
FUND BALANCE				
Restricted for Debit Service	-	-	213,541	213,541
Restricted for Capital Projects	-	-	59,465	59,465
Committed for Sick Leave	93,399	-	-	93,399
Assigned for Encumbrances	-	-	-	-
Unassigned	518,224	-	-	518,224
TOTAL FUND BALANCES	611,623	-	273,006	884,629
TOTAL LIABILITIES AND FUND BALANCES	\$ 667,825	\$ 222,650	\$ 345,597	\$ 1,236,072

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENTS OF NET POSITION
June 30, 2013**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$	884,629
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Cost of capital assets	36,608,470		
Accumulated depreciation	<u>(13,661,793)</u>		22,946,677
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long term liabilities at year end consist of:			
Accrued sick leave	(93,399)		
Bonds and capital leases payable	<u>(15,884,798)</u>		<u>(15,978,197)</u>
Total net position - governmental		\$	<u>7,853,109</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 3,604,934	\$ -	\$ 391,805	\$ 3,996,739
Earnings on investments	6,626	37	12,868	19,531
State sources	14,771,903	995,478	1,626,609	17,393,990
Federal sources	91,452	2,391,541	-	2,482,993
Other sources	2,813	4,295	-	7,108
Total revenues	18,477,728	3,391,351	2,031,282	23,900,361
Expenditures				
Instructional	10,500,667	2,520,383	-	13,021,050
Student support services	1,104,780	53,251	-	1,158,031
Staff support services	1,267,043	550,662	-	1,817,705
District administration	421,055	-	-	421,055
School administration	1,162,411	559	-	1,162,970
Business support services	347,726	-	-	347,726
Plant operation/maintenance	2,077,376	12,824	-	2,090,200
Student transportation	2,200,028	-	-	2,200,028
Day care operations	12,542	1,021	-	13,563
Community service	30,805	224,826	-	255,631
Adult education operations	-	29,000	-	29,000
Facility acquisition/construction	19,554	-	641,715	661,269
Debt service principal	139,292	-	1,524,395	1,663,687
Debt service interest	24,234	-	438,056	462,290
Total expenditures	19,307,513	3,392,526	2,604,166	25,304,205
Excess (deficit) of revenues over expenditures	(829,785)	(1,175)	(572,884)	(1,403,844)
Other financing sources (uses):				
Gain/Loss on Sale of Asset	2,126	-	-	2,126
Operating transfers in	272,810	1,175	1,336,724	1,610,709
Operating transfers out	(454,813)	-	(1,085,555)	(1,540,368)
Total other financing sources (uses)	(179,877)	1,175	251,169	72,467
Net change in fund balances	(1,009,662)	-	(321,715)	(1,331,377)
Fund balances July 1, 2012	1,621,285	-	594,721	2,216,006
Fund balances June 30, 2013	\$ 611,623	\$ -	\$ 273,006	\$ 884,629

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

June 30, 2013

Amounts reported for governmental activities in the statement of net position are different because:

Net changes - governmental funds:	\$ (1,331,377)
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.	545,033
Bond proceeds are reported as financing sources in governmental funds and thus contributes to the change in fund balance. In the Statement of Net Assets; however, issuing debt increases long-term liabilities and does the affect the Statement of Activities.	
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Principal paid	1,663,687
In the statement of activities the net gain on the sale/disposal of assets is reported whereas in the governmental funds the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balances by the cost of the asset sold.	<u>(1,588,418)</u>
Changes in net position - governmental funds	<u>\$ (711,075)</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013

	<u>CAPITAL OUTLAY</u>	<u>DEBT SERVICE</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 59,465	\$ 1,217	\$ 5,381	\$ 66,063
Accounts Receivable	-	-	-	-
Investments	-	279,534	-	279,534
TOTAL ASSETS	<u>\$ 59,465</u>	<u>\$ 280,751</u>	<u>\$ 5,381</u>	<u>\$ 345,597</u>
LIABILITIES				
Accounts payable	\$ -	\$ 67,210	\$ 5,381	\$ 72,591
TOTAL LIABILITIES	-	67,210	5,381	72,591
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted for capital projects	59,465	-	-	59,465
Restricted for debt service	-	213,541	-	213,541
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCE	<u>59,465</u>	<u>213,541</u>	<u>-</u>	<u>273,006</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 59,465</u>	<u>\$ 280,751</u>	<u>\$ 5,381</u>	<u>\$ 345,597</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	CAPITAL OUTLAY	BUILDING FUND	DEBT SERVICE	CONSTRUCTION FUND	TOTAL NON-MAJOR GOV'T FUNDS
REVENUES					
Taxes	\$ -	\$ 391,805	\$ -	\$ -	\$ 391,805
Earnings on investment	-	-	12,868	-	\$ 12,868
State sources	228,946	438,123	959,540	-	\$ 1,626,609
Total revenues	228,946	829,928	972,408	-	2,031,282
EXPENDITURES					
Facility acquisition and construction	-	-	-	641,715	641,715
Plant operation/maintenance	-	-	-	-	-
Debt service principal	-	-	1,524,395	-	1,524,395
Debt service interest	-	-	438,056	-	438,056
Total expenditures	-	-	1,962,451	641,715	2,604,166
Excess (deficit) of revenues over expenditures	228,946	829,928	(990,043)	(641,715)	(572,884)
Other financing sources (uses):					
Proceeds from sale of bonds	-	-	-	-	-
Operating transfers out	(255,627)	(829,928)	-	-	(1,085,555)
Operating transfers in	-	-	1,172,032	164,692	1,336,724
Total other financing sources (uses)	(255,627)	(829,928)	1,172,032	164,692	251,169
Net change in fund balance	(26,681)	-	181,989	(477,023)	(321,715)
Fund balance July 1, 2012	86,146	-	31,552	477,023	594,721
Fund balance June 30, 2013	\$ 59,465	\$ -	\$ 213,541	\$ -	\$ 273,006

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	<u>FOOD SERVICE</u>	<u>OTHER ENTERPRISE FUNDS</u>	<u>TOTAL</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 234,082	\$ (1,950)	\$ 232,132
Accounts receivable	91,408	1,950	93,358
Inventories for consumption	36,068	-	36,068
	<u>361,558</u>	<u>-</u>	<u>361,558</u>
Total current assets	361,558	-	361,558
Noncurrent assets			
Buildings and improvements	1,837,658	-	1,837,658
Furniture and equipment	338,664	-	338,664
Accumulated depreciation	(846,324)	-	(846,324)
	<u>1,329,998</u>	<u>-</u>	<u>1,329,998</u>
Total noncurrent assets	1,329,998	-	1,329,998
TOTAL ASSETS	<u>\$ 1,691,556</u>	<u>\$ -</u>	<u>\$ 1,691,556</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 908	\$ -	\$ 908
Total current liabilities	908	-	908
Total noncurrent liabilities	-	-	-
	<u>908</u>	<u>-</u>	<u>908</u>
TOTAL LIABILITIES	<u>908</u>	<u>-</u>	<u>908</u>
NET POSITION			
Invested in assets, net of debt	1,329,998	-	1,329,998
Reserved for inventories	36,068	-	36,068
Unrestricted	324,582	-	324,582
	<u>1,690,648</u>	<u>-</u>	<u>1,690,648</u>
TOTAL NET POSITION	<u>1,690,648</u>	<u>-</u>	<u>1,690,648</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,691,556</u>	<u>\$ -</u>	<u>\$ 1,691,556</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
PROPRIETARY FUNDS
for the year ended June 30, 2013

	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 121,711	\$ -	\$ 121,711
Other operating revenues	883	43,176	44,059
	<hr/>	<hr/>	<hr/>
Total operating revenues	122,594	43,176	165,770
OPERATING EXPENSES			
Salaries and benefits	849,905	76,804	926,709
Contract services	35,603	69	35,672
Materials and supplies	903,291	(11,228)	892,063
Depreciation	52,764	-	52,764
Other operating expenses	9,961	25	9,986
	<hr/>	<hr/>	<hr/>
Total operating expenses	1,851,524	65,670	1,917,194
Operating income (loss)	(1,728,930)	(22,494)	(1,751,424)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	1,364,090	-	1,364,090
State grants	255,329	22,494	277,823
Donated commodities	111,441	-	111,441
Gain/Loss on Sale of Asset	1,081	-	1,081
Operating Transfers Out	(70,341)	-	(70,341)
Interest income	1,604	-	1,604
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues	1,663,204	22,494	1,685,698
Change in net position	(65,726)	-	(65,726)
Net assets July 1, 2012	1,756,374	-	1,756,374
	<hr/>	<hr/>	<hr/>
Net assets June 30, 2013	\$ 1,690,648	\$ -	\$ 1,690,648
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2013

Cash flows from operating activities:

Cash received from lunchroom sales	\$ 121,711
Cash received from other activities	44,059
Cash payments to employees for services	(926,709)
Cash payments to suppliers	(892,063)
Cash payments for other operating expenses	<u>(115,015)</u>

Net cash provided by operating activities (1,768,017)

Cash flows from noncapital financing activities:

Nonoperating grants received 1,641,913

Net cash provided by noncapital financing activities 1,641,913

Cash flows from investing activities:

Interest income 1,604

Net cash provided by investing activities 1,604

Net increase in cash equivalents (124,500)

Cash and cash equivalents July 1, 2012 356,632

Cash and cash equivalents June 30, 2013 \$ 232,132

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

Operating income \$ (1,751,424)

**Effect of Increases and Decreases in Current
Assets and Liabilities:**

Depreciation	52,764
Increase in inventory	(16,464)
Increase in receivables	(52,243)
Decrease in payables	<u>(650)</u>

Net cash provided by operating activities \$ (1,768,017)

Schedule of non-cash transactions:

Gain / loss on sale of asset	1,081
Donated commodities	<u>111,441</u>
	<u><u>\$ 112,522</u></u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
June 30, 2013

	Private Purpose Trust Funds
ASSETS AND RESOURCES	
Cash and cash equivalents	\$ 160,888
Accounts receivable	3,716
TOTAL ASSETS AND RESOURCES	164,604
LIABILITIES	
Accounts payable	3,569
Total liabilities	3,569
NET POSITION HELD IN TRUST	\$ 161,035

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN NET POSITION - FIDUCIARY FUNDS
June 30, 2013

	Private Purpose Trust Funds
REVENUES	
Revenues from Student Activities	597,029
Total Revenues	<u>597,029</u>
EXPENSES	
Student Activities	<u>600,493</u>
Changes in Net Position	(3,464)
Net Position July 1, 2012	164,499
Net Position June 30, 2013	<u><u>\$ 161,035</u></u>

The accompanying notes are an integral part of these statements.

**WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Wayne County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Wayne County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Wayne County School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Wayne County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of net assets and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. With the exception of Cardinal Bank, these funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. The Cardinal Bank operates a school bank for the benefit of students and the nature of its operations are not conducive to some of the requirements of the Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each October on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Property taxes attach as an enforceable lien on the property at May 31. Tax rates assessed were 38.9 and 38.9 cents, respectively, per one hundred dollars of assessed value.

Property taxes collected are deposited into the General Fund, then transferred and recorded as revenues in the fund for which they were levied.

Utilities Taxes

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing, within the county, of telephone, cable television, electricity and water services.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

Once the budget is approved, it can be amended. Amendments aggregating more than \$50,000 are presented to the Board for their approval at their regular meetings. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds which record inventory using the accrual basis of accounting. Food service fund inventories are stated at cost.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

Investments

Investments are stated at fair value at the balance sheet date. The District has investments in Fixed Income Money Market Funds, which are restricted for repayment of a QZAB upon bond maturity and may not be used for any other purpose.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is recorded as a long-term liability.

Fund Balance Reserves

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013 the District had \$213,541 restricted as debt service in the Debt Service Fund, \$93,399 as restricted for sick leave and \$59,465 as restricted for capital projects in the Capital Outlay Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had no committed fund balances at June 30, 2013.

Assigned fund balances are those amounts that are considered by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2013 was \$0.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The District had \$518,224 in Unassigned fund balance at June 30, 2013.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On-Behalf Payments

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2013 was \$6,149,257. These payments were recorded as follows:

General Fund	\$3,887,299
Debt Service	959,540
Food Service Fund	239,940
Day Care Operations Fund	<u>22,494</u>
Total	<u>\$5,109,273</u>

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$868,912. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name. At June 30, 2013 all deposits were fully collateralized. Cash and cash equivalents at June 30, 2013 exclusive of activity and debt service funds, consisted of the following (after deposits in transit and outstanding checks):

Governmental funds	\$ 163,473
Proprietary funds	\$ 232,132

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Wayne County School District and the Kentucky School Facilities Construction Commission.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Wayne County School District Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the following page sets forth the amount to be paid by the district and the Commission for each year until maturity of all bond issues.

At June 30, 2013 total indebtedness, including both principal and interest, amounted to \$18,775,854. This is detailed below and on the following page.

Capital Lease Payable

Presented below is the schedule of lease payments due by the District to KISTA for purchase of transportation vehicles:

Year ended June 30

2014	102,055
2015	95,584
2016	68,912
2017	<u>35,510</u>
	<u>\$ 302,061</u>

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2013

The original amounts of issue, issue dates and interest rates are summarized below:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>
2003B	4,340,000	1.1 - 3.5
2003C	830,000	3.4
2005	10,530,000	3.0 - 4.0
2007	2,740,000	.75 - 4.0
2009	1,265,000	4.0
2011	2,377,000	1.5-3.5
2012	7,400,000	.700 - 4.0
2013	445,000	2.4 - 3.0

DEBT SERVICE AMORTIZATION

<u>Year Ending June 30</u>	<u>District</u>		<u>KSFCC</u>		<u>Annual Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	875,743	147,250	717,031	234,449	1,974,473
2015	913,114	131,088	699,660	213,507	1,957,369
2016	938,138	102,225	716,636	192,190	1,949,189
2017	962,799	75,466	733,975	175,574	1,947,814
2018	937,627	52,546	710,147	163,982	1,864,302
2019	380,936	28,512	723,838	150,433	1,283,719
2020	297,299	21,476	644,475	133,629	1,096,879
2021	186,688	16,838	651,086	119,723	974,335
2022	179,832	13,035	666,942	105,344	965,153
2023	177,701	8,752	682,073	90,103	958,629
2024	162,458	3,870	698,542	74,065	938,935
2025	24,697	1,463	714,303	57,551	798,014
2026	23,331	853	699,669	40,867	764,720
2027	7,825	313	194,175	29,295	231,608
2028	-	-	137,000	22,348	159,348
2029	-	-	142,000	17,465	159,465
2030	-	-	147,000	12,408	159,408
2031	-	-	152,000	7,175	159,175
2032	-	-	129,000	2,258	131,258
Totals	<u>\$ 6,068,188</u>	<u>\$ 603,687</u>	<u>\$ 9,959,552</u>	<u>\$ 1,842,366</u>	<u>18,473,793</u>

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE D – RETIREMENT PLANS

Pension Plan

The Wayne County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort KY 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy - Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 14.105%.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the members must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employee Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

Funding Policy – In order to fund the post-retirement healthcare benefit, three and one half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarter percent (1.75%) is paid by member contributions and three quarter percent (.75%) from state appropriation and one percent (1.00%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Wayne County School System's total payroll for the year was \$12,478,780. The payroll for employees covered under KTRS was \$10,734,693. For the year ended June 30, 2013 the Commonwealth contributed \$1,276,614 to KTRS for the benefit of participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$1,276,614, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employees' retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% if they were members prior to July 1, 2008, 6.00% if they became members after July 1, 2008 and a District contribution of 19.55% of the employees' total compensation subject to contribution. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Historical trend information showing KTRS and CERS progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013 comprehensive annual financial reports. As the Board is only one of several employers participating in the Plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the Plan assets.

NOTE E - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE F - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, including worker's compensation insurance.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE G - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory in the Food Service Director's office at the Wayne County Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term.

The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

NOTE I - DEFICIT OPERATING/FUND BALANCES

There are currently no funds that have a deficit fund balance; however, the following funds had operations that resulted in a current year deficit of expenditures over revenues, resulting in a corresponding reduction of fund balances:

General Fund	\$(1,103,061)
Construction Fund	\$ (477,024)
Capital Outlay	\$ (26,681)
Food Service	\$ (65,726)

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE J - CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset life, are not.

Capital asset activity for the year ended June 30, 2013 is detailed on the following page.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	\$ 1,920,179	\$ 55,954	\$ 21,039	\$ 1,955,094
Buildings and improvements	28,627,777	1,429,619	49,365	30,008,031
Technology equipment	2,955,575	-	1,743,738	1,211,837
Vehicles	3,336,997	7,000	100,905	3,243,092
General equipment	782,869	-	592,453	190,416
Totals at historical cost	37,623,397	1,492,573	2,507,500	36,608,470
Less accumulated depreciation for:				
Land and improvements	536,197	17,023	17,912	535,308
Buildings and improvements	8,826,420	637,641	11,590	9,452,471
Technology equipment	1,973,667	149,196	1,262,116	860,747
Vehicles	2,666,416	127,149	100,905	2,692,660
General equipment	429,820	16,531	325,744	120,607
Total accumulated depreciation	14,432,520	947,540	1,718,267	13,661,793
GOVERNMENTAL ACTIVITIES CAPITAL NET	\$ 23,190,877	\$ 545,033	\$ 789,233	\$ 22,946,677
PROPRIETARY ACTIVITIES				
Buildings and improvements	1,761,451	76,207	-	1,837,658
Technology equipment	15,825	-	15,825	-
General equipment	704,645	6,006	371,987	338,664
Totals at historical cost	2,481,921	82,213	387,812	2,176,322
Less accumulated depreciation for:				
Buildings and improvements	570,972	36,089	-	607,061
Technology equipment	10,414	146	10,560	-
General equipment	518,855	16,530	296,122	239,263
Total accumulated depreciation	1,100,241	52,765	306,682	846,324
PROPRIETARY ACTIVITIES CAPITAL NET	\$ 1,381,680	\$ 29,448	\$ 81,130	\$ 1,329,998

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 791,464
Student support services	2,523
Staff support services	2,899
District administration	6,572
School administration	1,164
Business support services	461
Plant operation/maintenance	5,624
Student transportation	134,929
Community services	1,904
Total	<u>\$ 947,540</u>

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
June 30, 2013

	Beginning Cash July 1, 2012	Receipts	Disbursements	Ending Cash June 30, 2013
Early Childhood	\$ 11,847	\$ 8,412	\$ 8,165	\$ 12,094
Walker Elementary	34,497	60,911	64,019	31,389
Bell Elementary	16,496	52,397	53,042	15,851
Wayne County Middle	32,897	142,655	133,987	41,565
	<u>\$ 95,737</u>	<u>\$ 264,375</u>	<u>\$ 259,213</u>	<u>\$ 100,899</u>

Included in Receipts and Disbursements
are Interfund transfers as follows:

Early Childhood	\$ 3,346
Walker Elementary	\$ -
Bell Elementary	\$ 6,700
Wayne County Middle	\$ 450

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS AND DISBURSEMENTS
WAYNE COUNTY HIGH SCHOOL ACTIVITY FUND
for the year ended June 30, 2013

Account	Beginning Cash 7/1/2012	Receipts	Expenses	Ending Cash 6/30/2013
American Tradition Club	\$ 27	\$ - 0	\$ -	\$ 27
ACA Academic Team	8	2,617	1,631	994
Annual	2,121	30,038	31,185	974
Archery	794	1,290	1,085	999
Art Fund	75	-	45	30
Band	3,213	36,859	40,072	-
Baseball	537	8,406	8,831	112
Boys Basketball	4,046	38,449	38,321	4,174
Beta Club	251	1,205	778	678
Boys Golf	615	2,467	3,082	-
Bowling	1,816	5,567	4,898	2,485
Class of 2011	-	-	-	-
Class of 2013	-	370	370	-
Class of 2014	-	6,375	5,876	499
Candy Making Club	158	-	158	-
Boys Basketball Carpet	-	2,550	-	2,550
Community Based Instruction	163	620	640	143
Cheerleader Budget	141	10,570	10,406	305
Chess Club	27	-	27	-
Class of 2012	-	-	-	-
Coke Fund	1,765	3,454	5,107	112
Computer Repair Class	410	200	470	140
Cross Country	1,543	4,632	5,676	499
Dance Team	-	3,754	3,580	174
Deca Store	568	2,083	1,926	725
Drama Club	70	610	630	50
Dr. Permits	46	636	625	57
Environmental Education	1,878	-	-	1,878
Faculty Coke Fund	766	973	1,601	138
FCA	1,463	5,291	5,213	1,541
FCCLA	502	839	1,047	294
FCA - ROTC Sp.	1,233	1,731	1,697	1,267
Future Ed of America	1,210	-	-	1,210
FFA	4,194	13,963	13,865	4,292
FFA Grant	500	-	123	377
FFA Region Account	-	316	316	-
Foreign Language Club	1	-	-	1
Flower Fund	30	-	-	30
Football	3,136	50,230	52,342	1,024
Freshman Academy	70	8,396	8,466	-
Girls Basketball	7,050	16,294	19,988	3,356
Gifted and Talented	7	-	-	7
Greenhouse	3,650	-	149	3,501
Girls Softball	1,600	8,312	8,299	1,613
G/U Field Trips	321	-	-	321
History Club	280	-	215	65

Homecoming Spirit Account	26		26	-
Junior Pro	3	-	-	3
Key Club	196	-	-	196
KUNA	-	-	-	-
Library	500	1,021	922	599
Math	155	1,120	1,023	252
Monticello Bank Classic Tourn.	-	3,635	3,635	-
Mini-Courses	125	-	116	9
National Honor Society	96	-	-	96
Office/CD	823	16	-	839
Pep Club	-	-	-	-
Photography Club	40	-	40	-
Basketball Programs	-	4,220	4,220	-
ROTC FR	3,083	15,319	15,043	3,359
SADD - Unite	3,927	392	2,534	1,785
Science Olympiad	1,155	350	718	787
Shoot Away	-	-	-	-
Soccer	3,961	6,086	3,592	6,455
SP Account	2,705	10,530	12,190	1,045
Band Spring Trip	289	-	-	289
Tennis	901	2,982	2,690	1,193
Track	72	1,395	1,073	394
Tri-M	42	610	652	-
TSA	462	1,550	1,558	454
Video Production	1,050	130	-	1,180
Volleyball	-	8,926	7,959	967
Wrestling	1,590	8,979	9,092	1,477
Youth Service Center	221	4,701	3,734	1,188
	<u>68,615</u>	<u>343,857</u>	<u>352,483</u>	<u>59,989</u>
Interfund transfers	-	11,203	11,203	-
Totals	<u>\$ 68,615</u>	<u>\$ 332,654</u>	<u>\$ 341,280</u>	<u>\$ 59,989</u>

WAYNE COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
June 30, 2013

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 3,501,700	\$ 3,604,934	\$ 103,234
Earnings on investments	10,000	6,626	(3,374)
State sources	10,896,963	14,771,903	3,874,940
Federal sources	90,000	91,452	1,452
Other sources	-	2,813	2,813
Total revenues	14,498,663	18,477,728	3,979,065
Expenditures			
Instructional	8,290,568	10,594,066	(2,303,498)
Student support services	909,176	1,104,780	(195,604)
Staff support services	1,033,142	1,267,043	(233,901)
District administration	391,629	421,055	(29,426)
School administration	949,399	1,162,411	(213,012)
Business support services	237,927	347,726	(109,799)
Plant operation/maintenance	1,921,452	2,077,376	(155,924)
Student transportation	1,827,045	2,200,028	(372,983)
Day care operations	12,000	12,542	(542)
Community service operations	850	30,805	(29,955)
Adult education operations	-	-	-
Facility acquisition/construction	-	19,554	(19,554)
Debt service	163,527	163,526	1
Total expenditures	15,736,715	19,400,912	(3,664,197)
Excess (deficit) of revenues over expenditures	(1,238,052)	(923,184)	314,868
Other financing sources (uses):			
Gain / Loss on sale of assets	2,126	2,126	-
Operating transfers in	249,759	272,810	(23,051)
Operating transfers out	(137,421)	(454,813)	317,392
Total other financing sources (uses)	114,464	(179,877)	(294,341)
Net change in fund balances	(1,123,588)	(1,103,061)	20,527
Fund balance July 1, 2012	1,123,588	1,621,285	497,697
Fund balance June 30, 2013	\$ -	\$ 518,224	\$ 518,224

WAYNE COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON - SPECIAL REVENUE
for the year ended June 30, 2013

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Earnings on investment	\$ -	\$ 37	\$ 37
State sources	1,013,374	995,478	(17,896)
Federal sources	2,389,692	2,391,541	1,849
Other sources	<u>155,835</u>	<u>4,295</u>	<u>(151,540)</u>
Total revenues	3,558,901	3,391,351	(167,550)
EXPENDITURES			
Instructional	2,608,115	2,520,383	87,732
Student support services	63,119	53,251	9,868
Staff support services	467,429	550,662	(83,233)
District administration	150,085	-	150,085
School administration	558	559	(1)
Plant operation/maintenance	17,778	12,824	4,954
Day care operations	1,175	1,021	154
Community services	222,817	224,826	(2,009)
Adult education operations	<u>29,000</u>	<u>29,000</u>	<u>-</u>
Total expenditures	<u>3,560,076</u>	<u>3,392,526</u>	<u>167,550</u>
Excess (deficit) of revenues over expenditures	(1,175)	(1,175)	-
Other financing sources (uses):			
Operating transfers in	1,175	1,175	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	1,175	1,175	-
Net change in fund balances	-	-	-
Fund balance July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance June 30, 2013	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**WAYNE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass - Through Grantor/ Program Title	CFDA Number	MUNIS Number	Current Year Expenses (All Projects)
U.S. Department of Education			
Passed through Kentucky Department of Education			
Special Education Cluster (Cluster 1)			
Adult Education Basic	84.002	3733	74,199
Adult Education Staff Development	84.002	3733S	828
Adult Education Deveopment Funds	84.002	3653	7,300
IDEA-B Basic	84.027 *	3372	41,204
IDEA-B Basic	84.027 *	3373	506,629
IDEA-B Basic Private School	84.027A	3372P	-
IDEA-B Basic Private School	84027A	3373P	-
IDEA-B Preschool	84.173	3432	3,293
IDEA-B Preschool	84.173	3433	36,253
Title I	84.010 *	3102	32,801
Title I	84.010 *	3103	961,755
Title I, Parent Involvement	84.010 *	3102M	227
Title I, Parent Involvement	84.010 *	3103M	11,779
Title I - Neglected and Delinquent	84.013	3,133	23,989
Title I - Neg and Delq Transition	84.013	3133T	2,399
Migrant Education Basic	84.011	3112	14,827
Migrant Education Basic	84.011	3113	26,419
Title I-C	84.048	3483	17,557
Rural & Low Income School Program	84.358	3502	9,958
Rural & Low Income School Program	84.358	3503	24,875
School to Work - Gear UP	84.334A	3792G	37
Teacher Quality	84.367 *	4012	3,651
Teacher Quality	84.367 *	4013	221,721
Title II-D Education Technology	84.318X	4252	4,028
21st Century CT	84.287	5502	100,440
21st Century-Summer Learning	84.287	5502S	8
Race to the Top	84.413A	4521	36,434
Edu Jobs	84.410	4411	7,357
U.S. Department of Defense			
ROTC	12.000	5043	59,227
U.S. Department of Agriculture			
Passed through Kentucky Department of Education			
Child Nutrition Cluster (Cluster 2)			
National School Breakfast Program	10.553 *	N/A	466,902
National School Lunch Program	10.555	N/A	892,411
Summer Feeding	10.559	N/A	-
Non-monetary Food Donation	10.550	N/A	111,441
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 3,699,949

*Audited as a major program under the requirements
of Circular A-133

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting, which is the same basis used in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133.

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The value of federal awards expended in the form of non-cash assistance is \$111,441.

Clusters:

(1) Special Education Cluster

(2) Child Nutrition Cluster

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Wayne County School District
Monticello, Kentucky 42633

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract – Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County School District as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued my report thereon dated November 7, 2013.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Somerset, Kentucky
November 7, 2013

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Wayne County School District
Monticello, KY 42633

Compliance

I have audited the Wayne County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contract and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract– Electronic Submission*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Somerset, Kentucky
November 7, 2013

**WAYNE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Wayne County School District.
2. There are no significant deficiencies or material weaknesses disclosed in the audit of the financial statements.
3. There are no questioned costs reported in the audit of the financial statements.
4. No instances of noncompliance material to the financial statements of Wayne County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit. There are no findings required to be reported under Section 510(a) of Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Wayne County School District expresses an unmodified opinion on all major federal programs.
6. Wayne County School District does not qualify as a low-risk auditee.
7. Major programs included: IDEA-B Basic (CFDA #84.027), Title I (CFDA #84.010), Title I Parent Involvement (CFDA #84.010), Teacher Quality (CFDA #84.367) and USDA School Breakfast Program (CFDA #10.553)
8. The threshold for distinguishing Type A and Type B programs was \$300,000.

CURRENT YEAR FINDINGS RELATED TO FINANCIALS STATEMENTS

None

CURRENT FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

**WAYNE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2013**

There are no prior audit findings.

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MANAGEMENT LETTER

Superintendent and Members of the Board of Education
Wayne County School District
Monticello, Kentucky

In planning and performing my audit of the financial statements of Wayne County School District for the year ended June 30, 2013, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my audit, I became aware of some matters that are opportunities to strengthen controls and operate in a more efficient manner.

PRIOR YEAR UNCORRECTED CONDITIONS

Condition 1

Statement of Condition: Wayne County Early Childhood Center did not have two sign off initials (segregation of duties) on deposits.

Criteria for Condition: All deposits should be prepared by one person, reviewed and taken to the bank by another.

Cause of the Condition: Failed to follow procedure.

Effect of the Condition: Receipts are more susceptible to theft or fraud if only one person is involved in the receipt / deposit process.

Recommendation: One person should prepare the monies for deposit and initial the ticket. A second person should review, initial, and take the deposit to the bank.

Comment: Segregation of duties is difficult to achieve with a small staff; however, management will make efforts in the future to correct this condition.

Condition 2

Statement of Condition: Walker Elementary is not properly utilizing their purchase order system. Purchase orders were often dated after the vendor invoice and were not signed for approval.

Criteria for Condition: Purchase orders must be utilized consistently across all activity funds.

Cause of the Condition: Responsible persons are not properly utilizing the purchase order system.

Effect of the Condition: Failure to properly utilize purchase orders prevents the activity fund clerk from maintaining accurate balances within the affected funds.

Recommendation: Purchase orders must be used consistently for all activity fund purchases and completed and signed before the purchase is made.

Comment: Management will try harder to comply in the future.

Condition 3

Statement of Condition: Walker Elementary made several disbursements with no approval signature.

Criteria for Condition: All purchases should be approved by the principal before the purchase is made.

Cause of the Condition: Several purchases are being made without an approval signature.

Effect of the Condition: Activity fund monies are susceptible to misuse without a proper approval process in place.

Recommendation: The activity fund treasurer should obtain approval signatures by the principal before obtaining and / or paying any expenditures.

Comment: Management will try harder to comply in the future.

Condition 4

Statement of Condition: Some vendor receipts were missing at Walker Elementary.

Criteria for Condition: District should obtain a vendor receipt for all purchases made.

Cause of the Condition: Some vendor receipts were either not obtained, lost or misplaced.

Effect of the Condition: Proof of expenditures cannot be achieved without vendor receipts.

Recommendation: A vendor receipt should be obtained for all purchases made and kept in an orderly manner.

Comment: Management will try harder to comply in the future.

Condition 5

Statement of Condition: There were several instances where the Purchase Order date was after the vendor receipt date at the High School.

Criteria for Condition: A Purchase Order shall be completed and signed before a purchase is made.

Cause of the Condition: Some purchases are being made before getting approval and a Purchase Order is being completed.

Effect of the Condition: Activity fund monies are susceptible to misuse without a proper approval process in place.

Recommendation: No purchases should be made without prior approval.

Comment: Management will comply in the future

Condition 6

Statement of Condition: The Principal's Combining Budget was completed late or was not completed at all for several activity funds.

Criteria for Condition: A budget shall be completed by May 15th before the new school year begins so the school has an idea and direction of income and expenses for the upcoming year.

Cause of the Condition: The budget was not prepared in a timely manner or was not prepared at all.

Effect of the Condition: Without a budget in place, there is no guideline for the school on what monies they have coming in and going out.

Recommendation: Prepare and approve a budget by May 15th before the new school year begins.

Comment: Management will comply in the future.

Condition 7

Statement of Condition: Multiple Receipt Forms are not consistently being used for fundraisers and field trips at Walker Elementary, Wayne Co. Middle School and Wayne Co. High School.

Criteria for Condition: Multiple Receipt Forms shall be completed for all monies collected for fundraisers and field trips.

Cause of the Condition: Multiple Receipt Forms are not always being used.

Effect of the Condition: Without the use of Multiple Receipt Forms, it is difficult to prove whom paid money to the school and how much was collected.

Recommendation: Always complete Multiple Receipt Forms for monies collected for field trips and fundraisers.

Comment: Management will comply in the future.

CURRENT YEAR CONDITIONS

Condition 1

Statement of Condition: Fundraiser Approval forms and Fundraiser worksheets are not being prepared for all fundraisers at Walker Elementary and Wayne Co. High School.

Criteria for Condition: Fundraiser Approval forms should be completed and signed before any fundraiser is held. Upon completion of the fundraiser, a Fundraiser worksheet shall be completed by the responsible party and turned in to the school treasurer.

Cause of the Condition: Failure to properly complete and turn in Fundraiser Approval forms and Fundraiser worksheets for all fundraisers held.

Effect of the Condition: Without knowledge and accountability for each fundraiser, fundraiser monies collected for the benefit of the school are more susceptible to theft and / or misuse.

Recommendation: The person in charge of the fundraiser shall complete the Fundraiser Approval form and get it signed and approved by the principal. After completion of the fundraiser, the responsible party shall complete the Fundraiser worksheet, which shows all monies received and expended for the fundraiser, to the school treasurer.

Comment: Management will comply in the future.

Condition 2

Statement of Condition: There were several outside organizations affiliated with the school (ie. PTO's and booster clubs) that did not submit a Budget to the school treasurer and did not submit any form of financial reporting (ie.. financial or bank statements) to the school treasurer at the Middle or High schools.

Criteria for Condition: All outside organizations affiliated with the school shall submit a Budget report to the school treasurer at the beginning of each school year and shall submit some form of financial reporting throughout the school year to the school treasurer.

Cause of the Condition: School treasurer's state that it is very difficult to get these outside organizations to submit the required documentation to them.

Effect of the Condition: Without knowledge and accountability for each outside organization, monies collected for the benefit of the school are more susceptible to theft and / or misuse.

Recommendation: The person in charge of the outside organization shall submit all required documentation in a timely manner to the school treasurer.

Comment: School treasurer's will try harder to obtain the required documentation, but state that it is often very difficult to get the outside organization to comply.

Condition 3

Statement of Condition: There were several instances where the Purchase Order date was after the vendor receipt date for the General fund.

Criteria for Condition: A Purchase Order shall be completed and signed before a purchase is made.

Cause of the Condition: Some purchases are being made before getting approval and a Purchase Order is being completed.

Effect of the Condition: Monies are susceptible to misuse without a proper approval process in place.

Recommendation: No purchases should be made without prior approval.

Comment: Management will comply in the future

I have reported on the District's internal control structure in my report dated November 7, 2013. This letter does not affect my report dated November 7, 2013 on the financial statements of Wayne County School District.

I will review the status of these comments during my next audit engagement. I have already discussed these comments and suggestions with District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform an additional study of this matter, or assist the District with implementation of recommendations.

This report is intended solely for the information and use of the Board, management, Kentucky Department of Education, Kentucky State Committee for School District Audits, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Barry D. Daulton, CPA, PSC